



DIRECTIVE 06-1 (SUPERSEDES Directive 04-4)

March 30, 2006

STANDARDS FOR MEASUREMENT OF LEVEL OF VALUE AND QUALITY OF ASSESSMENT FOR ASSESSMENT YEAR 2006

Purpose. This directive is to advise the assessor and the Department of Property Assessment and Taxation, (hereinafter referred to as “the Department”), as well as any other interested persons, of the statistical measures the Department will use to help analyze the level and quality of assessment in the state for assessment year 2006.

The Department, in order to render an opinion to the Nebraska Tax Equalization and Review Commission regarding the level of value and quality of assessment of the classes and subclasses of real property in the state pursuant to Neb. Rev. Stat. §77-5027, (R. S. Supp., 2005), has developed Standards for Measurement of Level and Quality of Assessment, (hereinafter referred to as “Standards”), for assessment year 2006.

It is the position of the Property Tax Administrator that one of the primary responsibilities of the Department, is to develop information in various formats that assists the administrators, payers and beneficiaries of property taxes in making informed decisions concerning the quality of the valuation of real property for property tax purposes. The Standards serve as a guide to all interested persons regarding the process that has been or will be taken by the Property Tax Administrator in preparation of the data for analysis for the assessment year 2006 for real property. The Standards specify the manner by which the data is prepared for use in analyzing real property assessments in the assessment year 2006. The Standards are used in conjunction with all other regulations, directives, manuals, guides and instructions promulgated by the Department.

DEVELOPMENT OF THE SALES FILE DATABASE

Pursuant to Neb. Rev. Stat. § 77-1327 (R.S. Supp., 2005), the Department shall develop a sales file to assist in measuring the level of value and the quality of assessment for each county. The Department describes the process of the development of the sales file in Title 350, Neb. Admin. Code, Chapter 12, Sales File Regulations and in Directive 05-10, Responsibilities of the County or State Assessor and the Department of Property Assessment and Taxation in the Development of the Real Property Sales File for Assessment Year 2006.

STATISTICAL REPORTS

For the purposes of this directive, sales shall be classified pursuant to Chapter 10 Real Property Regulations, 10-004.02, as reported on the Supplemental Worksheet at the time of sale or as changed by the assessor.

For the assessment year 2006, the sales file database shall contain sales from the following time frames:

1. Residential real property: sales from July 1, 2003 through June 30, 2005. The Assessor may request that the statistical reports for residential real property use sales from a different time frame. Sales are available from July 1, 2002 through June 30, 2005. The Department will work with the county to develop an adjustment to the additional year to incorporate economic changes that may have occurred during the additional time period.
2. Commercial real property: sales from July 1, 2002 through June 30, 2005.
3. Agricultural land: sales from July 1, 2002 through June 30, 2005.

STATISTICAL STUDIES AND THE DEPARTMENT'S CORRELATION

Statistical Studies

The Department may develop statistical studies, in compliance with professionally accepted mass appraisal techniques, of the following primary classes of real property: residential real property; commercial real property; and unimproved agricultural land.

The study as Residential and Commercial/Industrial class of real property will display analyses of subclasses including, but not limited to: assessor location; market area; school district; year built; status; property type; construction quality; date of sale; style or occupancy code of improvement if improved; additionally number of acres; and primary land use at 50, 80, and 95% will be displayed for agricultural. The statistics calculated for each of the data sets shall be the measures of central tendency and variance for each of the following groupings of sales: each calendar quarter in the study period; each study year in the study period; each calendar year in the study period; and, the total sales in the study period. The Department may calculate statistics for other data sets as deemed appropriate.

The Department may utilize statistical tests such as the Mann-Whitney test to determine value attributed to improvements in the market at different percentage and dollar amounts as well as review levels of individual land use percentage contribution.

The Department shall calculate statistics for the following data sets:

1. RESIDENTIAL REAL PROPERTY:
2. COMMERCIAL REAL PROPERTY:
3. AGRICULTURAL LAND: UNIMPROVED

To measure central tendency, the Department shall calculate the median, mean, weighted mean, and confidence intervals for each class. The confidence interval of each subclass of real property will be calculated around the median, except for agricultural land receiving special valuation in a county that has implemented special value throughout the entire county. The measurement of special value of agricultural land for counties that are 100% greenbelt is an income based measurement methodology pursuant to Title 350, Neb. Admin. Code, Chapter 22, Measurement of Special Valuation.

The Department shall calculate the quality statistics of the coefficient of dispersion (COD) and the price-related differential (PRD) for each class and subclass of real property.

The statistical studies shall be calculated using all qualified sales.

OTHER ANALYSIS

The Department may develop statistical studies that would reveal and reduce the statistical bias that can occur when low value (in terms of dollars) properties are sold. The bias occurs when the selling price and assessed values are reasonably close in terms of absolute dollars but still produce extreme ratios causing the COD and PRD to be unduly influenced. These statistical studies would be county specific.

Neb. Rev. Stat. § 77-1327 (4), (R. S. Supp., 2005), requires that the Property Tax Administrator develop a methodology for determining the level of value for real property receiving special valuation. That property is agricultural and horticultural land that has been given special valuation, popularly known as “greenbelt” pursuant to Neb. Rev. Stat. §§ 77-1343 to 77-1348 (R. S. Supp., 2004). Special valuation is designed for the valuation of agricultural or horticultural land excluding the impact of other nonagricultural uses or potential uses. For equalization purposes, Neb. Rev. Stat. §77-5023(2), (R. S. Supp., 2004) provides that the acceptable range in terms of value for special valuation property is between 74 and 80 percent of the special valuation. This methodology is set forth in Title 350, Neb. Admin. Code, Chapter 22, Measurement of Special Valuation.

The Department may develop other analyses as necessary based upon the facts present in a county. Such other analyses may include a determination of the appropriateness of the assessment practices observed in the county office, and whether they lend themselves to the equitable assessment of all real property.

MEASUREMENT DATE

A defined sales time frame is appropriate to maintain consistency of data for all counties. This is not intended to preclude counties from using analysis of more recent sales, or from a different time frame, on which to base a determination of level of value. It is intended to set a fixed study period under which the Department's initial study will be conducted for all counties. The measurement date may be used as a common target date to potentially adjust data in order that the same measurement standards can be used to evaluate all counties. If the county believes that a different time frame of sales provides a more accurate sample to measure the level of value in a county, it may request in writing the Property Tax Administrator to create such statistical reports in accordance with generally accepted mass appraisal techniques, in addition to the format of reports created for all other counties. The Property Tax Administrator shall make the determination of value in the same manner as all other counties.

TESTS FOR ADJUSTMENT OF SOLD PROPERTIES ONLY AND EXCESS TRIMMING

The purpose of this standard is to specify the tests that the Department may use to ensure equal treatment of sold and unsold properties. This test will be a primary indication of the assessment practice of adjusting the assessed value of only sold properties.

The Department may compare the percentage change of assessed values at the time of sale of sold properties contained in the sales data base from July 1, 2004 to June 30, 2005 to the percentage change of the property class, excluding growth, as reported on the 2005 Certificate of Taxes Levied, Form 49, and the 2006 Abstract of Assessment Report for Real Property, Form 45. If assessment practices treat sold and unsold properties consistently and the sales file proportionately represents the population, the percentage change in the sale file and assessed base will be similar.¹ The Department may do comparisons on additional time frames depending on the information available for the county.

The Department shall also calculate a level of value for a class of real property by adjusting the level of value as indicated on the Preliminary Statistics by the change in value for that class of real property from 2005 Certificate of Taxes Levied, Form 49 to 2006 Abstract of Assessment Report for Real Property, Form 45, excluding growth. The trended preliminary ratio is an alternative method of calculating a point estimate as an indicator of the level of value. It compares the preliminary median ratio, trended preliminary median ratio and the R&O median ratio. The analysis compares the changes in these ratios to the assessment actions taken by the county assessor. If the county assessor's assessment practices treat all properties in the sales file and properties in the population in a similar manner, the trended preliminary ratio will correlate closely with the R&O median ratio.

¹Standard on Ratio Studies, International Association of Assessing Officers, (1999) Section 10.7; Gloudemans, Robert J., Mass Appraisal of Real Property, International Association of Assessing Officers, (1999), p. 311.

The Department may also trend the values in place at the time of the sale by the percent change in value for that class of real property, excluding growth, for each year the sale is used, and calculate a statistical indicated level of value on the selling price/trended assessed value relationship. If assessment practices treat sold and unsold properties consistently, the statistics calculated from the trended assessment sales ratio analysis and the level of value calculated on current assessed values will be similar.

The Department shall calculate the percentage of sales determined to be qualified and compare this percentage to similarly situated counties to determine if a particular county's assessment practices on sales verification needs further review so as to not include or exclude non arms length transactions.

These tests, while not conclusive, may indicate whether the statistically calculated level of value represents the level of value of all assessed property or only the level of value of sold property. The Property Tax Administrator will discuss inconsistencies and possible explanations in specific reports.

INSUFFICIENT SALES

The Department shall make sales from other counties available to a county assessor when the assessor determines that there is an insufficient number of sales within a class or subclass of real property. Supplemental sales may be provided by use of benchmark sales or by expanding the time frame of the sales used in the sales file database. The Property Tax Administrator shall consider the time frame difference in determining the level of value so as to make the determination comparable to the opinion in other counties.

The Property Tax Administrator shall also consider market averages in adjoining counties as well as historic patterns of levels of value. Benchmark sale shall mean a property that has sold in a similar geographic and economic area in another jurisdiction that when assessed utilizing the assessment practices of the county being analyzed may be used to assist in determining the level of value.

APPROVED:

/s

Catherine D. Lang
Property Tax Administrator
March 30, 2006

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